

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Shiawassee Area Transportation Agency	County Shiawassee
Fiscal Year End 9/30/06	Opinion Date 11/22/06	Date Audit Report Submitted to State 2/14/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

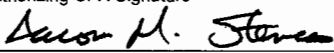
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Shiawassee Area Transportation Agency  
Owosso, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2006**

Shiawassee Area Transportation Agency  
BOARD MEMBERS AND ADMINISTRATION

September 30, 2006

Governing Board

John Orin	Caledonia Representative
Stephen Corey	Corunna Representative
Charles Spring	Corunna Representative
Brian Boggs	Durand Representative
Cameron Canute	Durand Representative
Robert Bluedorn	Owosso Representative
Michael Cline	Owosso Representative
James Huguelet	Perry Representative
Chris Reha	Perry Representative
Donald Trap	RES D Representative
Jill Young	RES D Representative

Administration

Lawrence Alpert	Executive Director
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Shiawassee Area Transportation Agency

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Shiawassee Area Transportation Agency  
Owosso, Michigan

We have audited the financial statements of the Shiawassee Area Transportation Agency as of and for the year ended September 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of Shiawassee Area Transportation Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Shiawassee Area Transportation Agency for the year ended September 30, 2005 were audited by other auditors whose report dates December 28, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shiawassee Area Transportation Agency as of September 30, 2006, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2006, on our consideration of the Shiawassee Area Transportation Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Shiawassee Area Transportation Agency's basic financial statements. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Shiawassee Area Transportation Agency. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 22, 2006

Shiawassee Area Transportation Agency  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

The intent of the management's discussion and analysis is to provide highlights of the Agency's financial activities for the Fiscal Year ended September 30, 2006. Readers are encouraged to read this section in conjunction with the basic financial statements.

#### FINANCIAL HIGHLIGHTS

- **Assets:** The assets of the Agency exceed its liabilities by \$1,295,896 (net assets). Of this amount, \$318,826 (unrestricted net assets) may be used to meet the Agency's ongoing obligations to citizens and creditors. The total net assets decreased by \$57,130.
- **Unrestricted Net Assets:** At the end of the current fiscal year, the unrestricted net assets balance for the Agency was \$318,826, or approximately 33% of total expenses. At the end of the prior fiscal year, the unrestricted net assets balance for the Agency was \$271,616, which was approximately 26% of last year's total expenses.
- **Federal & State Funding of Capital Projects:** Shiawassee Area Transportation Agency is eligible for grants through the Michigan Department of Transportation and the U.S. Department of Transportation. During the fiscal year ending September 30, 2006, the Agency recognized \$249,435 less in capital grant revenue. This decrease was due to the capital grants being received in fiscal year 2005 for the construction of the building.

#### REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Agency using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Agency's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Agency creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency.

All of the fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of the Agency's operations over the past year and can be used to determine whether the Agency has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the report period.

#### FINANCIAL ANALYSIS OF SHIAWASSEE AREA TRANSPORTATION AGENCY

The Statement of Net Assets and the Statement of Activities provide the information to determine how the Agency did financially during 2005-6. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining the Agency's financial health.

#### NET ASSETS

The Agency's Comparative Condensed Statements of Net Assets and Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables.

Shiawassee Area Transportation Agency  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

TABLE 1  
CONDENSED STATEMENT OF NET ASSETS

	Fiscal Year <u>2005-6</u>	Fiscal Year <u>2004-5</u>
Current Assets	\$ 356,837	\$ 356,611
Capital Assets, net	<u>977,070</u>	<u>1,075,861</u>
Total Assets	1,333,907	1,432,472
Current Liabilities	<u>38,011</u>	<u>84,995</u>
Invested in Capital Assets	977,070	1,075,861
- Unrestricted	<u>318,826</u>	<u>271,616</u>
Total Net Assets	<u>\$ 1,295,896</u>	<u>\$ 1,347,477</u>

TABLE 2  
CONDENSED STATEMENT OF REVENUE, EXPENSES,  
AND CHANGES IN FUND NET ASSETS

	Fiscal Year <u>2005-6</u>	Fiscal Year <u>2004-5</u>
Operating Revenues	\$ 232,788	\$ 217,530
Nonoperating Revenues	<u>672,399</u>	<u>972,893</u>
Total Revenues	905,187	1,190,423
Depreciation Expense	132,715	163,963
Other Operating Expenses	<u>829,602</u>	<u>873,724</u>
Total Expenses	<u>962,317</u>	<u>1,037,687</u>
Change in Net Assets	( 57,130 )	152,736
Beginning Net Assets	<u>1,353,026</u>	<u>1,194,741</u>
Ending Net Assets	<u>\$ 1,295,896</u>	<u>\$ 1,347,477</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets shows that the operating loss before intergovernmental (nonoperating) revenues was a factor in the Change in Net Assets. In addition, the depreciation expense of \$132,715 is a non-cash expense which represents the reduction in the value of the facility and busses. Due to the nature of the Agency's capital improvement plan, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through the State and Federal funding.

The Agency's operating revenues decreased approximately 7% over the prior year, which was not considered to be a material change. Operating expenses decreased approximately 8%, mainly due to decreased contractual services and depreciation expense.

The Agency's nonoperating revenues decreased by approximately \$300,494, or about 45% over the prior year. This decrease is due primarily to capital grant revenue being received in fiscal year 2005 for the construction of the building.



Shiawassee Area Transportation Agency  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

#### CAPITAL ASSETS

The acquisition of new busses is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This allows for the Agency to maintain its fleet at an average life of five (5) years. This funding source also allows for the Agency to use all of its operating revenues on daily services and not tie up those incomes with debt payments for equipment or the facility.

TABLE 3  
CAPITAL ASSETS

	Fiscal Year <u>2005-6</u>	Fiscal Year <u>2004-5</u>
Land	\$ 15,233	\$ 15,233
Buildings and improvements	838,428	838,428
Vehicles	632,411	598,487
Equipment	<u>61,814</u>	<u>61,814</u>
Subtotal	1,547,886	1,513,962
Less: Accumulated depreciation	<u>( 570,816 )</u>	<u>( 438,101 )</u>
Net property and equipment	<u>\$ 977,070</u>	<u>\$ 1,075,861</u>

The Agency's Capital Plan includes bus acquisition. Federal grants have been sought and awarded to upgrade and replace maintenance equipment and to replace buses. Note C to the financial statements provides additional information regarding capital assets.

#### DEBT ADMINISTRATION

The Agency carries no long-term debt as any improvements to the fleet or facilities have all been secured by state or federal projects. This allows the Agency to avoid any debt other than current liabilities in the normal operation of the system.

#### ECONOMIC FACTORS

Many of the funds that subsidize the transportation operation are appropriated by both State and Federal legislation. These funds have remained relatively consistent; however, fluctuations in future funding levels may occur depending upon economic conditions at local, state, and federal levels.

#### CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Executive Director of Shiawassee Area Transportation Agency at 180 North Delaney Road, Owosso, MI 48867, (989)729-2687.

## **BASIC FINANCIAL STATEMENTS**

Shiawassee Area Transportation Agency

STATEMENT OF NET ASSETS

September 30, 2006 and 2005

	2006	2005
<b>ASSETS</b>		
Current assets		
Cash	\$ 292,992	\$ 175,682
Accounts receivable	29,631	84,491
Due from state government	14,613	71,869
Due from federal government	16,830	9,682
Inventory	2,696	620
Prepays	75	14,267
Total current assets	356,837	356,611
Noncurrent assets		
Capital assets not being depreciated	15,233	15,233
Capital assets, net of accumulated depreciation	961,837	1,060,628
Total noncurrent assets	977,070	1,075,861
<b>TOTAL ASSETS</b>	<b>1,333,907</b>	<b>1,432,472</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	25,502	30,330
Construction payable	-	43,488
Accrued payroll	7,523	7,153
Other accrued liabilities	4,986	3,599
Deferred revenue	-	425
<b>TOTAL LIABILITIES</b>	<b>38,011</b>	<b>84,995</b>
<b>NET ASSETS</b>		
Invested in capital assets	977,070	1,075,861
Unrestricted	318,826	271,616
<b>TOTAL NET ASSETS</b>	<b>\$ 1,295,896</b>	<b>\$ 1,347,477</b>

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Years Ended September 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Sales and charges for services	\$ 232,788	\$ 217,530
OPERATING EXPENSES		
Administrative	303,224	340,316
Operations	592,758	617,323
Maintenance	66,335	80,048
TOTAL OPERATING EXPENSES	962,317	1,037,687
OPERATING (LOSS)	(729,529)	(820,157)
NONOPERATING REVENUES		
Intergovernmental		
Federal sources	130,525	107,681
State sources	366,294	406,184
Local sources	141,655	175,131
Sale of assets	-	537
TOTAL NONOPERATING REVENUES	638,474	689,533
NET INCOME BEFORE CAPITAL GRANT REVENUE	(91,055)	(130,624)
CAPITAL GRANT REVENUE		
Federal sources	27,140	183,128
State sources	6,785	100,232
TOTAL CAPITAL GRANT REVENUE	33,925	283,360
CHANGE IN NET ASSETS	(57,130)	152,736
Restated net assets, beginning of year	1,353,026	1,194,741
Net assets, end of year	\$ 1,295,896	\$ 1,347,477

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

STATEMENT OF CASH FLOWS

Years Ended September 30, 2006 and 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 287,648	\$ 245,660
Cash paid to employees	(372,673)	(388,876)
Cash paid to suppliers	(414,852)	(376,782)
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>(499,877)</b>	<b>(519,998)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Intergovernmental sources		
State and Federal grants	552,476	518,005
Local contributions	64,710	67,426
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>617,186</b>	<b>585,431</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash received from sale of assets	-	555
State and Federal capital assistance	33,925	537,209
Capital acquisitions	(33,924)	(461,086)
<b>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>1</b>	<b>76,678</b>
<b>NET INCREASE IN CASH DURING YEAR</b>	<b>117,310</b>	<b>142,111</b>
Cash, beginning of year	175,682	33,571
Cash, end of year	<u>\$ 292,992</u>	<u>\$ 175,682</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating (loss)	\$ (729,529)	\$ (820,157)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities		
Depreciation	132,715	163,963
Contributed services	76,945	108,130
Decrease in accounts receivable	54,860	28,130
(Increase) in inventory	(2,076)	(620)
Decrease in prepaids	14,192	(554)
(Decrease) in accounts payable	(4,828)	745
(Decrease) in construction payable	(43,488)	-
Increase in accrued wages	370	1,663
(Decrease) in other accrued liabilities	962	(1,298)
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (499,877)</b>	<b>\$ (519,998)</b>

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Shiawassee Area Transportation Agency (SATA) was created by an agreement dated October 1, 1999, by the cities of Corunna, Durand, Owosso, Perry, and the Shiawassee Regional Education Service District (RES D) pursuant to the provisions of Public Act 7 of 1967 (extra session) as amended.

Under the agreement it was agreed:

1. Pursuant to the provision of the Act, SATA was established for the purpose of providing public transportation services in areas throughout Shiawassee County, including on-demand transportation and transport of public school students needing to reach community sites as part of their educational program.
2. A party to this agreement may withdraw from SATA after having provided written notice to the remaining parties to this agreement at least one year prior to the effective date of withdrawal.
3. Additional public agencies may become parties to this agreement upon the adoption of a resolution approved by the governing body of the public agency and with the concurrence of the other public agencies that are parties to this agreement now or in the future. The resolution shall be in the form specified by SATA's board of directors.
4. SATA shall be governed by a board of directors comprised of not more than thirteen members.
  - a. Each of the governing bodies of the cities of Corunna, Durand, Owosso, and Perry and the Shiawassee Regional Education Service District shall appoint two members to the board of directors for three year overlapping terms in accordance with the following schedule:

Owosso representative	term expiring October 1, 2006
RES D representative	term expiring October 1, 2006
Corunna representative	term expiring October 1, 2006
Perry representative	term expiring October 1, 2006
Durand representative	term expiring October 1, 2007
Owosso representative	term expiring October 1, 2007
RES D representative	term expiring October 1, 2007
Perry representative	term expiring October 1, 2007
Caledonia representative	term expiring October 1, 2007
Corunna representative	term expiring October 1, 2008
Durand representative	term expiring October 1, 2008

- b. Any public agency that shall become party to this agreement subsequent to its effective date shall appoint a single member to the board of directors. The board of directors shall determine the duration of the term of each member appointed pursuant to this subparagraph so as to equalize the number of terms expiring in any year. At such time as more than three additional agencies have become parties to this agreement, the board of directors shall establish a schedule of rotating terms to fill the three board of director positions allocated to the additional public agencies.
    - c. Whenever the total number of members appointed pursuant to subparagraphs (a) and (b) shall be an even number, the board of directors shall appoint a member-at-large. As additional public agencies become parties to this agreement and appoint members such that the total number of members appointed by public agencies is an odd number, the service of any member-at-large on the board of directors shall be terminated.

The accounting policies of Shiawassee Area Transportation Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

1. Basis of Presentation

The accounts of SATA are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. SATA resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

SATA applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. SATA has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

2. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

3. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

4. Cash

Cash consists of checking accounts.

5. Receivables/Due from other governments

Receivables/due from other governments consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

6. Inventories

Inventories consist of maintenance and repair parts and are valued on the average cost basis.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

7. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	20 years
Vehicles	4-7 years
Equipment	1-10 years

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

8. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

9. Comparative Data/Reclassifications

Comparative total data for the prior year have been presented in the selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Agency's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

10. Cost Allocations

The Shiawassee Area Transportation Agency allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.

**NOTE B: CASH**

In accordance with Michigan Compiled Laws, SATA is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.



Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE B: CASH - CONTINUED**

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of September 30, 2006, the carrying amount of the Agency's deposits was \$292,842 and the bank balance was \$313,196, of which \$100,000 was covered by federal depository insurance. The remaining balance of \$213,196 was uninsured and uncollateralized.

The Statement of Net Assets caption "Cash" includes \$150 of imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2006, SATA did not have any investments that would be subject to rating.

Interest rate risk

The Agency has not adopted a policy that indicates how the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2006, was as follows:

	<u>Balance Oct. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 15,233	\$ -	\$ -	\$ 15,233
Capital assets being depreciated:				
Buildings and improvements	838,428	-	-	838,428
Vehicles	598,487	33,924	-	632,411
Equipment	<u>61,814</u>	<u>-</u>	<u>-</u>	<u>61,814</u>
Total capital assets being depreciated	1,498,729	33,924	-0-	1,532,653
Less accumulated depreciation for:				
Buildings and improvements	( 42,756 )	( 41,921 )	-	( 84,677 )
Vehicles	( 347,454 )	( 89,954 )	-	( 437,408 )
Equipment	<u>( 47,891 )</u>	<u>( 840 )</u>	<u>-</u>	<u>( 48,731 )</u>
Total accumulated depreciation	<u>( 438,101 )</u>	<u>( 132,715 )</u>	<u>-0-</u>	<u>( 570,816 )</u>
Net capital assets being depreciated	<u>1,060,658</u>	<u>( 98,791 )</u>	<u>-0-</u>	<u>961,837</u>
Net Capital Assets	<u>\$ 1,075,861</u>	<u>\$ ( 98,791 )</u>	<u>\$ -0-</u>	<u>\$ 977,070</u>

A summary of capital assets by funding source at September 30, 2006, follows:

	<u>Purchased with Local Funds</u>	<u>Purchased with State Capital Grants</u>	<u>Purchased with Federal Capital Grants</u>	<u>Total</u>
Land	\$ -	\$ 3,046	\$ 12,187	\$ 15,233
Building and improvements	-	167,686	670,742	838,428
Vehicles	119,600	267,096	245,715	632,411
Equipment	<u>5,083</u>	<u>12,505</u>	<u>44,226</u>	<u>61,814</u>
Total	124,683	450,333	972,870	1,547,886
Less: accumulated depreciation	<u>( 122,396 )</u>	<u>( 204,373 )</u>	<u>( 244,047 )</u>	<u>( 570,816 )</u>
Net Capital Assets	<u>\$ 2,287</u>	<u>\$ 245,960</u>	<u>\$ 728,823</u>	<u>\$ 977,070</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). No capital assets were disposed during the year ended September 30, 2006. Depreciation expense in the amount of \$132,715 was reported for the year ended September 30, 2006.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE D: COMPENSATED ABSENCES**

Leave time - less than two year seniority:

Full-time employees with less than two years of seniority shall accrue paid leave time at the rate of 80 hours annually. Part-time employees with less than two years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 40 hours annually. Part-time employees whose regular work schedules are fewer than 20 hours per week shall not earn paid leave time.

Leave time - two or more years of seniority:

Full-time employees with two or more years of seniority shall accrue paid leave time at the rate of 120 hours annually. Part-time employees with two or more years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 60 hours annually.

Leave time accrual:

Leave time shall be accrued on a monthly basis. The rate of accrual shall be calculated by dividing the annual rate of accrual by 12. The maximum amount of leave time that may be accumulated and used for paid leave accrued shall be 200% of the annual rate at which leave time is earned.

Compensation for unused leave time:

Unused leave time in excess of the maximum accumulated shall be paid at the rate of 50% of the employee's regular hourly rate of pay. Said payment shall be made once per year on the last payroll of the fiscal year (September).

**NOTE E: DEFERRED COMPENSATION PLAN**

Shiawassee Area Transportation Agency offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

A trust was created for the plan assets, thereby insulating the assets from SATA's general creditors. SATA's plan administrator, ICMA Retirement Corporation, created the trust and has placed the assets of the plan within the trust. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in SATA's financial statements.

**NOTE F: RISK MANAGEMENT**

The Agency is exposed to various risks of loss including losses related to the Agency's liability, directors and officers liability, workers compensation, contents/equipment, and employee dishonesty for which the Agency carries commercial insurance.

**NOTE G: CONTINGENT LIABILITIES**

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE H: LINE OF CREDIT**

Shiawassee Area Transportation Agency has a line of credit agreement with Chemical Bank to cover potential cash flow shortages. The line of credit limit is \$40,000, due on demand, with an interest rate of prime. The line of credit is secured by all assets and collateralized by three vehicles. During the year, Shiawassee Area Transportation Agency did not draw on this line of credit. As of September 30, 2006, there is no outstanding balance.

The prime rate at September 30, 2006 was 8.25%.

**NOTE I: RELATED PARTY TRANSACTIONS**

The various parties to the SATA agreement provide in-kind services to SATA. SATA would have to pay for all services provided by related parties. The value of these services has been recorded as revenue and expenses at their fair value as detailed below:

	<u>2006</u>	<u>2005</u>
City of Owosso - payroll processing and personnel consulting	\$ 2,678	\$ 7,237
Shiawassee Regional Education Service District (RESA) management and accounting assistance	<u>46,067</u>	<u>66,912</u>
	<u>\$ 48,745</u>	<u>\$ 74,149</u>

**NOTE J: RESTATEMENT OF NET ASSETS**

The Agency has received and/or paid reconciliation amounts for state operating assistance for the years ended September 30, 2000, 2001, 2002, 2003, 2004, and 2005 in excess of the amounts initially recorded as grants receivable. As a result, beginning net assets has been restated as follows:

Net assets as of September 30, 2005	\$ 1,347,477
Understated receivables	<u>5,549</u>
Restated net assets as of September 30, 2005	<u>\$ 1,353,026</u>

## OTHER SUPPLEMENTARY INFORMATION

Shiawassee Area Transportation Agency

SCHEDULE OF OPERATING REVENUES

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Passenger fares	\$ 66,844	\$ 56,344
Contract fares	157,542	152,575
Advertising	<u>8,402</u>	<u>8,611</u>
TOTAL OPERATING REVENUES	<u>\$ 232,788</u>	<u>\$ 217,530</u>

Shiawassee Area Transportation Agency

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2006  
with Comparative Totals for Year Ended September 30, 2005

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administrative</u>	<u>2006 Total System</u>	<u>2005 Total System</u>
Labor					
Operator's salaries and wages	\$ 252,218	\$ -	\$ -	\$ 252,218	\$ 268,668
Dispatcher's salaries and wages	47,155	-	-	47,155	44,458
Other salaries and wages	-	26,879	47,753	74,632	76,115
Fringe benefits	60,984	12,627	18,172	91,783	101,004
Contractual services					
Advertising fees	-	-	2,105	2,105	1,754
Other services	91,721	13,223	76,001	180,945	201,781
Materials and supplies consumed					
Fuel and lubricants	78,935	-	-	78,935	72,701
Tires and tubes	5,526	-	-	5,526	4,123
Other materials and supplies	5,768	13,606	4,111	23,485	38,098
Utilities	-	-	11,344	11,344	11,810
Casualty and liability costs					
Premiums for public liability	49,351	-	-	49,351	31,146
Other insurance	-	-	3,814	3,814	2,102
Miscellaneous expenses					
Travel and meetings	1,100	-	5,219	6,319	5,630
Other	-	-	1,990	1,990	2,162
Leases and rentals	-	-	-	-0-	12,172
Depreciation	-	-	132,715	132,715	163,963
Total Expenses	<u>\$ 592,758</u>	<u>\$ 66,335</u>	<u>\$ 303,224</u>	<u>\$ 962,317</u>	<u>\$ 1,037,687</u>

Shiawassee Area Transportation Agency

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Contributed services	\$ 76,945	\$ 108,130
Local participation	54,557	61,774
Other	<u>10,153</u>	<u>5,227</u>
 TOTAL NONOPERATING REVENUES - LOCAL	 <u>\$ 141,655</u>	 <u>\$ 175,131</u>



Shiawassee Area Transportation Agency

SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
State of Michigan Grants		
Formula operating assistance (Act 51) - current year	\$ 297,477	\$ 297,261
Capital grant - Section 5311	6,785	-
Project Zero	-	40,026
Specialized Services	68,817	66,300
Capital grants used for operations	<u>-</u>	<u>2,597</u>
Total State of Michigan Grants	373,079	406,184
Federal Grants		
U.S.D.O.T. operating grant - Section 5311	127,475	93,112
Capital grant - Section 5311	27,140	-
RTAP	3,050	3,486
Capital grants used for operations	<u>-</u>	<u>11,083</u>
Total Federal Grants	<u>157,665</u>	<u>107,681</u>
TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u>\$ 530,744</u>	<u>\$ 513,865</u>

Shiawassee Area Transportation Agency

SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

Year Ended September 30, 2006

	Federal Section 5311	State Operating Assistance
Expenses		
Labor	\$ 374,005	\$ 374,005
Fringe benefits	91,783	91,783
Contracted services	183,050	183,050
Material and supplies	107,946	107,946
Utilities	11,344	11,344
Casualty and liability costs	53,165	53,165
Miscellaneous	8,309	8,309
Depreciation	132,715	132,715
Total expenses	962,317	962,317
Less: Ineligible expenses		
Depreciation	132,225	132,225
Specialized services	68,817	68,817
MPTA Dues	135	135
Audit fees	8,050	-
RTAP	3,050	3,050
Advertising	187	187
Total ineligible expenses	212,464	204,414
NET ELIGIBLE EXPENSES	\$ 749,853	\$ 757,903
Maximum Section 5311 reimbursement 17% of \$749,853, not to exceed \$136,220	\$ 127,475	
Maximum State operating assistance 39.25% of \$757,903, not to exceed \$314,544		\$ 297,477

Shiawassee Area Transportation Agency

SCHEDULE OF INELIGIBLE EXPENSES

Year Ended September 30, 2006

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible Expense</u>
Urban Mass Transportation Administration		
A) Operating Grants Listed on Schedule of Expenditures of Federal and State Awards	<ol style="list-style-type: none"> <li>1. Grant costs - Grant expenditures are included in the total expenses; therefore, are deducted to arrive at net eligible expenses.</li> <li>2. Audit fees - Audit fees are a federal ineligible expense when no single audit is required.</li> <li>3. Depreciation - Depreciation charged to contributed capital must be deducted as an ineligible expense.</li> <li>4. MPTA Dues - A percentage of the annual dues paid to the Michigan Public Transit Association must be deducted as an ineligible expense.</li> <li>5. Advertising - A portion of cost associated with selling advertising must be deducted as an ineligible expense.</li> </ol>	<p>\$ 71,867</p> <p>8,050</p> <p>132,225</p> <p>135</p> <p><u>187</u></p>
	Total	<u>\$ 212,464</u>

Shiawassee Area Transportation Agency  
SCHEDULE OF MILEAGE DATA (UNAUDITED)  
Years Ended September 30, 2006 and 2005

	Public Transportation Mileage (1)	
	2006	2005
DEMAND-RESPONSE		
First quarter	87,292	91,740
Second quarter	93,365	91,433
Third quarter	88,076	86,074
Fourth quarter	80,891	81,867
TOTAL TRANSPORTATION	<u>349,624</u>	<u>351,114</u>

(1) The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Shiawassee Area Transportation Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2006

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Award Amount	Expenditures
FEDERAL				
U.S. Department of Transportation				
Passed through MDOT				
Capital grant - Section 5311	20.509	2002-0086/Z14	\$ 375,000	\$ 27,140
RTAP	20.509	N/A	3,050	3,050
Operating Assistance - Section 5311				
FY 05-06	20.509	2002-0086/Z21/Z1	136,220	127,475
TOTAL EXPENDITURES OF FEDERAL AWARDS			514,270	157,665
STATE				
Michigan Department of Transportation				
Operating Assistance - ACT 51				
FY 05-06	N/A	N/A	314,544	297,477
Specialized services	N/A	2002-0086/Z20	68,817	68,817
Capital grant - Section 5311	N/A	2002-0086/Z14	93,750	6,785
TOTAL EXPENDITURES OF STATE AWARDS			477,111	373,079
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS			\$ 991,381	\$ 530,744

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Shiawassee Area Transportation Agency  
Owosso, Michigan

We have audited the basic financial statements of the Shiawassee Area Transportation Agency as of and for the year ended September 30, 2006, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shiawassee Area Transportation Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shiawassee Area Transportation Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Agency in a separate letter dated November 22, 2006.

This report is intended for the information of management and the Board of Directors of the Shiawassee Area Transportation Agency, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 22, 2006

Principals

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MANAGEMENT LETTER

To the Members of the Governing Board  
Shiawassee Area Transportation Agency  
Owosso, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of the Shiawassee Area Transportation Agency as of and for the year ended September 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are the result of our evaluation of the internal control structure and our discussions with management.

1. The Board should adopt an investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Agency has not adopted an investment policy to address the reporting requirements of GASB Statement No. 40.

Deposit and investment resources often represent significant assets of the Agency's funds. These resources are necessary for the delivery of the Agency's services and programs. Effective for the year ended September 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Agency's ability to provide services and meet its obligations as they become due.

We suggest the Board adopt an investment policy to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Agency's financial statements by GASB Statement No. 40.

2. The Administration should approve journal entries and supporting documentation for all entries posted to the general ledger.

During the course of our audit and through discussions with administration, it was noted that journal entries are not approved by a responsible official of the agency. It was noted that a separate organization (Shiawassee RESD) posts journal entries into the general ledger without the approval of the agency. The posting of journal entries into the general ledger without approval by a responsible official is a deficiency in the internal control structure of the agency.

We suggest the Executive Director review all journal entries and the related supporting documentation. We also suggest that only those journal entries that have been approved by the Executive Director be posted to the general ledger.



3. The Agency should consider adopting additional administrative policies and procedures.

Based on our discussions with management, we noted that the Agency has not formally adopted a written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Agency develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Fraud risk management program - We suggest that the Agency develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the Agency, and instructions for reporting fraud within the chain of command.
- b. Conflict of interest policy - We suggest that the Agency develop and adopt a conflict of interest policy. A conflict of interest policy will clarify the Agency's position on ethical behavior and communicate that position to employees and Board members. We suggest the Agency develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Board members. The Agency should also obtain conflict of interest disclosure statements from its employees and Board members.

4. The Agency should record revenue related to capital grants and specialized service contracts at the gross amounts.

Throughout the year, the Agency had recorded the activity related to capital grants and specialized services in balance sheet accounts. By recording all activity related to these types of grants and contracts on the balance sheet, the revenues and expenses were netted during the year. A similar issue was reported in the Agency's audit comments last year.

We suggest that the Agency create separate revenue and expense line items for each capital grant and specialized services contract to be able to better monitor activity related to those grants and contracts throughout the year. We also suggest that the Agency reclassify any capital grant expenses to the appropriate capital asset accounts at the end of the fiscal year as part of the year-end closing process.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated November 22, 2006.

This report is intended solely for the information and use of the administration of the Shiawassee Area Transportation Agency and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 22, 2006